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Why and How Business Insurance Benefits Its Users

Including also a Description of the Various Policy Forms Best Adapted for Commercial Life Insurance Purposes

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PREFACE

IN preparing this brochure on the use and necessity of life insurance in the modern business world the writer has endeavored to present the facts clearly and succinctly. He realizes that the active man of affairs is too much engrossed with other matters to peruse a mass of details with which he is in all likelihood already familiar, consequently there will not be a general analysis of insurance in this work, technical phrases will be avoided wherever possible, and the appeal will always be to reason and not to sentiment. It is also to be understood, although reference to this fact might not be necessary in addressing business men, that wherever the words "life insurance" occur in this booklet only legal reserve insurance is meant, as no other variety guarantees a specific performance at a fixed and unchangeable rate, hence does not give a proper basis for calculation. Only old line, or legal reserve, insurance can do that.

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The author's aim is merely to point out the many advantages offered by business insurance and there rest the case in the reader's hands. No reference or recommendations as to companies will be made. Life insurance has long been on a firmly established basis and the method of computation proven absolutely secure. There are a number of good companies throughout the country, and individuals, firms, or corporations will experience little difficulty in making sound insurance connections if they exercise a moderate amount of business acumen.

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CHAPTER I

Business Insurance and the Many Advantages and Safeguards It Offers to Firms and Corporations

CONCISELY stated, the primary object of the application of life insurance principles to commercial purposes is to give firms and corporations, in the event of death of any of their members, the same measure of protection that in former years was reserved for the family alone.

No sentimentality whatever attaches to this proposition. It is simply the exercise of sound business sense. What firm would question the advisability of carrying fire insurance? And yet only one fire insurance policy in each 1,260 written ever becomes a claim, whereas among the same number of men, even at so young an age as 35, more than eleven will pass away within the ensuing year. Of which form of insurance is the need the greater? The figures are conclusive and require no comment, and as to relative cost, commercial life insurance is much the cheaper.

Co-Partnership Insurance

In co-partnership insurance sound policy suggests insuring the individual members for

the benefit of the co-partnership, the premiums naturally being paid by the firm because it would be the beneficiary in the event of death of any of its members. The claim occasionally put forward that this would not be equitable for the decedent's heirs or beneficiaries has no foundation in fact, since they share equally with the surviving member or members all the advantages of increased assets brought into a business—assets always worth one hundred cents on the dollar—at a time when it will generally need them more than at any other period. In many instances the insurance protection would afford the only means to make possible a quick adjustment of the deceased partner's interest if this were found necessary or desirable.

Corporation Insurance

Corporations find it desirable to insure their officials, and especially those upon whom the management of affairs devolves. In many commercial and manufacturing institutions profitable operation is largely dependent on the continuous active participation of certain of their members. This may be due to their genius in effecting proper working organization, their superior administrative ability, their financial talents, their thorough mastery of all the details, mechanical or otherwise, of the business in

which they are engaged, or to their possession of strong personalities—the happy faculty of making and retaining friends and thereby controlling large trade outputs. The sudden death of any such official or partner would not only be likely to create havoc in the entire business organization of any institution but also seriously injure its credit, the life-blood of all commerce, and any firm or corporation so situated which failed to safeguard its interests by securing proper insurance protection on the lives of these important associates would certainly be deemed guilty of culpable negligence and have little cause for complaint at the shortening of credit lines in the event of the unexpected happening.

Insuring of Employes

In many business institutions, especially in manufacturing lines, it is frequently the case that certain employes occupy positions secondary only in importance to those of the controlling heads themselves. These are generally to be found among the superintendents, managers, foremen, owners of secret processes, salesmen who through their personal equation control a large volume of trade, chemists, mechanical engineers, designers, etc. The sudden removal by death of any of these might prove a serious financial loss and in some instances it

would even be found impossible to replace them. Firms and corporations have an insurable interest in the lives of all such valuable employes and prudence would suggest that proper protection be secured.

Creator of Credit

Credit is one of the greatest necessities of trade and few, indeed, are the commercial institutions that could endure without it, but the timidity of capital is proverbial and securing of proper credit facilities is often the most difficult task that confronts the new business concern. Well established firms and corporations even find it hard at times during periods of depression to secure extension of time or lengthening of credit lines. The banker may feel inclined to grant the accommodation on the seeker's personal equation, but proper regard for his own interests and the safety of his depositors' funds will cause him to hesitate until he has additional assurance that he is taking no unusual risks. Lacking that, he is likely to insist on good collateral.

The following example will fit many cases: Mr. Brown, acting for his corporation, applies at the institution's bank for additional credit, an amount considerably in excess of any accommodation that had hitherto been granted.

The banker feels unsafe in acceding to the request, but does not wish to refuse outright, so he tells Mr. Brown to call again in a day or two; that he will take the matter under advisement and give his final decision at the appointed time. Meanwhile the banker has a thorough investigation made of the concern's present status and prospects, and when Mr. Brown comes for his answer he receives something like the following:

"Mr. Brown, I should like to accommodate your company to the extent to which you have requested, but it is for rather a large amount and over an extended period of time, and under the circumstances that exist in your institution it would not be a good banking risk. To-day everything is all right in your concern and your prospects are excellent, but I find that Mr. Jones and yourself are the only officials who are actively interested in the company—everything practically depends upon you two—and if anything happened to you, or either of you, there is no telling how things would turn out. I am sorry, but I shall have to refuse the accommodation."

Now, if Mr. Brown or any other member of a firm or corporation confronted with a similar dilemma were able to produce insurance poli-

cies showing that such a contingency had been amply provided for there is little doubt that the fact would speedily cause a reversal of the banker's decision.

Becomes Cash Asset and May Be Used as Collateral

While business insurance policies play an important role as creators and stabilizers of credit from the very day of their issue, it is in their later years, when the loan or surrender values are annually being augmented by the constantly increasing reserve, that their greatest financial benefits become manifest. It should always be remembered that every legal reserve life insurance policy, except that which is known as term insurance, is in reality endowment insurance, the amount of the endowment represented by the surrender value at the end of each succeeding year depending altogether upon the amount the insured contributes annually to the reserve element of his policy plus its interest earning power. In other words, it is governed by the form of the policy and the age of the insured at the time of issuance. What are known as straight endowments naturally mature and become payable for their full face value at the end of the policy term.

These constantly growing policy reserves represent an actual cash asset and may be used at any time when stress of circumstances demands the procurement of ready funds. And it is not necessary to surrender the policies in order to secure the cash, the loan privileges always being available because the reserve itself is the best collateral that it would be possible to procure.

Creates Sinking Fund for Any Purpose

Through business insurance, and more especially by means of the endowment policy, a sinking fund may be established to carry out any preconceived plan in a stipulated period of time. For instance, when the constant measure of protection it affords during the intervening years is taken into consideration, what better, surer, cheaper or safer means can be found to create a fund available for the retirement of a partner, the purchase of undesirable stockholders' interests, the taking up of a bond issue or any other object desired than is offered by the straight endowment policy? And in this the matter of death need not even be considered except as a possible or remote contingency for which ample provision has been made.

Simplifies Settlement of Deceased Partner's Interest

Upon the death of a member of a firm or company it is frequently the case that pressure is brought to bear upon his business associates to secure a quick adjustment of his financial affairs, and unless ready means are at hand or procurable or a purchaser can be found to take over the deceased member's interest at once an embarrassing and annoying situation results. This may be in the nature of constant jangling with or interference by heirs or executors, and if, as often happens, they are inclined to be unreasonable or arbitrary in their demands, costly litigation in the form of suits for an accounting or receivership proceedings, with all its disastrous effects on credit and trade, is likely to ensue. Particularly is such a condition liable to arise where there are female heirs involved, as these are generally totally unfamiliar with the details of business, and if it should so happen that they are of a suspicious nature as well and apt to be influenced by poor advisers or busybodies, the situation will prove very aggravating to the surviving members of the company or firm unless cash is at hand to effect an immediate settlement.

The thought of such a condition arising in

their affairs, especially when everything has constantly been moving along in perfect harmony, is not a pleasant one to offer to the contemplation of serious minded business men, but it is based on what is happening every day, and often with the most baleful results. While far from being the rule, specific instances of the sort mentioned are numerous, and comparatively few firms or corporations, especially among those newly organized, could claim exemption from great loss and inconvenience in the event of the sudden death of one of their more important members.

This being admitted, the question next arises: How can protection best be secured against these or any other contingencies? And to this an unqualified answer can be given: The best protection procurable lies in commercial insurance, for the firm or corporation which carries adequate business insurance has discounted every unfavorable condition it may be called upon to meet in the event of death. It is true that insurance cannot replace the personal equation of the deceased member, but it does the nearest thing possible to this—throws into the breach a sufficient amount of quick assets to offset any financial loss the business might otherwise sustain through his untimely death.

Worries Cease Under Insurance Protection

When a man adequately insures himself for the benefit of his dependent family, his worries as to their future financial welfare cease. While both he and the members of his household may feel that his death would be an irreparable loss, still there is a certain sense of security afforded by the protection he has thrown about his loved ones which enables the conscientious father to view the inevitable with a peace of mind not possible under other conditions.

Similarly, when members of business organizations surround themselves and their associates with sufficient insurance to safeguard the future conduct of the enterprises with which they are connected in the event that death should invade their ranks, especially where cash assets are none too large and their own and their families' welfare makes imperative a successful continuance of the business, they often discover in the protection secured a cure for the most prolific causes of insomnia—worry and care concerning future business outcome. And one of the best features of commercial insurance is that its benefits are not contingent upon death alone—it protects during life as well through the constantly increasing reserves it builds up if the proper policies are employed.

CHAPTER II

Policies Best Adapted for Purposes of Business Insurance and Wherein Their Advantages Lie

When the members of a firm or corporation have concluded that it would be to their interest to avail themselves of the many benefits conferred by commercial insurance, the next question that arises naturally is as to which form of policy is best adapted to meet the various requirements of their present circumstances and probable future collective needs. In this respect the seekers of business insurance are confronted by the same problems that face the man who has decided to secure adequate protection for his family and whose consideration of choice of policies must be governed largely by the amount of insurance required, the length of time it will be necessary to maintain this at its maximum, his present situation and his future prospects. This is a matter which every individual can best determine for himself and no hard-and-fast rule can be laid down except that in securing any form of legal reserve insurance except a temporary or term policy the insured cannot go far astray.

All Contingencies Must Be Considered

Consequently, in treating the various classes of policies the writer's aim shall be merely to set forth their relative merits for business insurance purposes, describing also the existent disadvantages in certain contracts, and leave the matter of choice to the discretion of the prospective risks. In considering the question as to the best form of policy we must always remember that in selecting a life insurance contract due reflection should be given the different contingencies that may arise in later years—that we are striving to provide for future as well as present requirements. This we can most safely accomplish by taking as a guide what the history of life insurance has demonstrated to be the best course for the average man to pursue—namely, to secure a policy which provides for a sufficient reserve to carry the insurance as long as it may be needed. In doing this he is preparing in advance for possible or probable future requirements, and should it later be determined that further insurance is unnecessary, the accumulated reserve is always at his disposal—a cash asset.

Unless it is definitely known that temporary insurance will answer all purposes or there is urgent need of a larger amount of protection

than the concern desiring it can afford to carry under an ordinary policy, it doubtless will prove a wise precaution in the majority of cases to secure some form of permanent contract. In exceptional instances the reverse might prove true, but the rule must govern, not the exceptions, and any one who attempts prognostications on an individual life, or a dozen lives, in connection with life insurance is encroaching on the field of prophecy.

Term Policy

As its name indicates, the temporary or term policy is designed to provide protection merely for a stated number of years, after which the insurance expires unless the contract is renewed at a higher rate of premium payment. Term policies may be obtained for five, ten or twenty year periods, and they constitute the cheapest form of legal reserve insurance securable. Although these policies accumulate a small reserve during certain stages of their existence, the premiums are so calculated that at the end of the contract term this reserve will have become exhausted in the carrying of the insurance. Hence there are no surrender values at the termination period. Where there is an assurance that after a certain time no further insurance will be required, the term policy cov-

ers practically every purpose for which business or corporation insurance is taken out, and this, together with its cheapness, accounts for the fact that there are probably more five-year term policies written than of any other form of commercial insurance. The term policy serves every requirement as a credit creator and sustainer, but cannot be employed as direct collateral owing to its lack of satisfactory loan or surrender value. The demerit of this form of policy as compared to others is that in case further protection is necessary when the insurance term expires a higher rate of premium must be met and in many cases the question of further insurability may arise.

Ordinary or Whole Life Policy

The ordinary or whole life policy is based upon the assumption that the insurance contract will continue in force until death makes necessary a full settlement of the obligation assumed by the company when issuing it—payment of its face value to the designated beneficiaries. This is the cheapest form of permanent life insurance which it is possible to secure, as what has of late years been termed income insurance, which contemplates the payment of certain annual installments instead of a lump sum upon death of the risk, is not adaptable to the

purposes of business or corporation insurance, admirable as it may be for many cases of family protection.

In viewing business protection from all angles—present needs as well as future probabilities—the consensus of opinion among life underwriters will undoubtedly favor the ordinary life policy as best filling all the requirements of commercial insurance, since under its provisions a maximum amount of permanent protection may be secured at a minimum annual expense, and although the contributions to the legal reserve are just sufficient to enable enduring insurance to be written, yet in the course of time this reserve, in the form of loan or surrender value, will have risen to an amount that is not to be despised should there be urgent need of ready cash. Therefore this policy, in addition to being a credit creator, also possesses the merit that it may be used as direct collateral as soon as it has reached an age sufficient to entitle it to loan values.

The writer always has been a firm advocate of permanent insurance as against any form of temporary protection unless conditions make a compromise upon the latter form absolutely necessary, and he is firmly of the opinion that in deciding upon a choice the average commercial enterprise, in viewing the matter retrospec-

tively, will have no cause for regrets should it determine that the whole life policy is best adapted for its insurance purposes.

Limited Payment Life Policy

The limited payment life policy is essentially the same as the whole life contract, except that the premiums are so adjusted that the insured will have contributed a sufficient amount to the reserve element of the policy within a specified number of years to exempt him from further payments. The advantages of this policy are that the payments do not continue throughout the life of the contract and that the reserve is also constantly being increased through interest augmentations even after the premium-paying period has passed. The loan and surrender values naturally are larger at the varying periods than is the case with the whole life policy and thus figure to a heavier extent as cash assets. Limited payment life policies are in many respects admirable contracts, but their higher cost has so far kept them from being extensively used for business insurance purposes. Where so employed preference has been shown for the fifteen and twenty year periods.

Endowment Policies in Business Insurance

The endowment policy also has its place in commercial insurance, but this will be found

mainly where some predetermined plan has been formulated to be carried into execution within a certain number of years and the object of the insurance is to create a sinking fund for that purpose while securing all the advantages of business protection ad interim. By this method the projects under contemplation, whether they be the retirement of an elderly partner, concentration of stock into fewer hands, business enlargements, new buildings, the retirement of a bond issue or the cancellation of a long time mortgage, may be assured whether death intervenes or not. When considered from the viewpoints of safety and the intercurrent business protection afforded, it is questionable whether a cheaper or more effective means than endowment insurance could be devised to attain the same end.

Joint Policies or Separate Contracts?

The question as to whether joint policies or separate contracts are most desirable is certain to arise in many cases when the placing of copartnership or corporation insurance is under consideration. The best answer to this query is that the joint policy has but a single point in its favor to offset many disadvantages—namely, it is somewhat cheaper than are two separate policies. But the taking out of a joint

policy on two or more lives would be attempting to forecast that business relations would always continue to be harmonious and unchanging and that the same officials would constantly occupy the dominant positions in a corporation. This is, of course, impossible in dealing with the average human equation, and hence the dictum must be strongly against the employment of joint policies in business or corporation insurance. Only in rare instances might it prove advisable, and then merely on the ground of expense. In fact, insurance men are coming more and more to the conclusion that the joint policy is far from being an ideal contract even for purposes of family insurance.

Permanent Contracts Cheapest in End

The experience of underwriters specializing in the field of business insurance has demonstrated that in the majority of cases the decision of the prospects finally rests between some form of term policy and the whole life contract, with a tendency, in many instances, to favor the temporary insurance. Preference for temporary over permanent protection long has been deemed a short-sighted policy by insurance authorities and some economists even go to the extent of declaring the term policy the most expensive form of old line insurance the

prospect can choose, this view naturally being based on the average life expectation and the results secured in the past by policyholders.

In buying temporary insurance the risk merely contributes a sufficient amount to the reserve in his annual premium payments to carry his policy to the end of the term, whereas in ordinary insurance his reserve is computed to cover the full period of his life expectancy. Thus on a superficial examination it may appear to the prospective purchaser of term insurance that he is getting his protection for less money during a stipulated time—say, for instance, a ten or twenty-year period—than he would have to pay for permanent protection. But the contrary is true, for under a whole life contract, should the risk decide after ten, fifteen or twenty years that further protection in his case is unnecessary, he may surrender his insurance and draw his accumulated reserve. Deducting this from the total cost of his insurance during the intervening period, he will find the net amount paid per annum is considerably less than he would have paid under any form of term policy. The older the policy the better the showing in favor of permanent insurance.

A point which is frequently overlooked is that the actual mortality charge on all permanent life insurance contracts always remains the

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same as long as the policy is in force—namely, that charged at age of entry. The reserve element included in the yearly premium to cover the annually increasing mortality rate is credited to the individual policyholder and held merely as a surety fund to guarantee its payment should the insured die while a member of the company. If the risk desires to terminate his contract the accumulated reserve is at his disposal any time after the policy has attained sufficient age to entitle it to a surrender value, and as the amount is constantly being increased by its interest accruals his actual mortality charge also decreases in a corresponding degree. In term insurance, on the other hand, the mortality rate naturally increases with each renewal for a further period.

In conclusion, it may be stated that satisfaction is general where permanent insurance is chosen, but regrets are frequently heard at renewal periods when the choice has been in favor of temporary protection, and even lamentations where the renewal limit has been overlooked and conditions preventing further insurance have arisen. It is only the comparatively few who die years ahead of their natural period of life expectancy who profit to any great extent in securing term insurance.